



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

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October 11, 2005

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SUBJECT: October 10, 2005 REVENUE COLLECTION REPORT

Tax receipts were again stronger than expected for the month. General Fund-State (GFS) collections totaled \$913.8 million in the September 11–October 10, 2005 collection period. Collections were \$28.8 million more than the estimate for the period. Most major revenue sources were above the estimate for the month with Revenue act (retail sales, business and occupation, use and public utility) taxes and real estate excise tax payments accounting for the most of this month's variance. There were two special factors this month: an unusually large tax credit (-\$10.0 million) and an accounting adjustment (+\$5.0 million) correcting past understatement of Revenue Act receipts. The net impact of these is a \$ 5.5 million understatement of revenue act activity for the month. So far the economy appears to be weathering the steady rise in gas prices, however, this month's revenue collections is still based on pre-Katrina and Rita economic activity. There is some anecdotal evidence that higher gas prices in the post Katrina environment have slowed fuel consumption and some car sales. However, as yet, there is little evidence, anecdotal or otherwise, that the negative impacts of these storms has spread beyond the Gulf region.

The U.S. economy lost 35,000 jobs in September. Employment was expected to decline due to the impacts of the hurricanes, however, the total job loss number was less than most economists were expecting. In addition, the July and August employment gains were revised upward indicating more pre-Katrina momentum in the economy than assumed before. Less bullish was a decline in the Conference Board's Index of Leading Indicators in August. The August index fell 0.2 percent. In addition, the Conference Board reported that its Consumer Confidence Index, which had increased in August, fell sharply in September.

Revenue Act collections were \$24.1 million more than expected this month. Collections this month primarily reflect August 2005 activity of month taxpayers. Revenue Act growth continued to accelerate. This month Revenue Act receipts were 13.3 percent higher than a year-ago (adjusted for special factors). Revenue Act tax payments increased 12.0 percent (revised) last month and were up 11.1 percent two months ago. Revenue Act collection growth has averaged 12.1 percent in the last three months and 9.6 percent in the last twelve months. Revenue Act receipts continue to grow faster than both U.S. retail sales and state personal income.

Preliminary industry data for the September 11 to October 10, 2005 collection period based on payment data of 14,500 taxpayers who filed electronically again shows strong growth across-the-board. Businesses in the retail trade and food services sector reported an 11.0 percent increase in tax payments. This is the strongest retailing growth since the recession. Last month retailers reported a 10.7 percent gain. As has been the case for the past couple of months, all retail NAICS sectors reported increases. Double digit gains were reported by gasoline and convenience store retailers (+30.9 percent), furniture and home furnishing retailers (+18.2 percent), food stores (+17.4 percent), building materials/garden supply stores (+16.4 percent), non-store retailers (+11.7 percent), and motor vehicles and parts retailers (+10.6 percent). Overall, tax payments by non-retail trade and food services business were 9.2 percent higher than a year ago. Last month this category reported a 6.9 percent increase. As was the case last month, most major sectors increased. Sectors with double digit increases include: construction (+11.7 percent), finance and insurance (+20.7 percent), transportation and warehousing (+22.7 percent) and professional, technical and scientific services (+27.4 percent). The manufacturing sector reported a small decline (1.8 percent). However, as was the case last month, the decline in tax payments was due to an unusually large tax credit, not to a decline in taxable activity. The strong real estate market continues to influence overall spending. Construction/real estate related sectors (construction, building materials/hardware, furniture and home furnishings, electronics and appliances) again grew faster (+12.6 percent) than other sectors (+9.3 percent) as has been the case for seventeen of the last eighteen months.

Non-Revenue Act General Fund taxes were \$4.7 million more than the estimate for the month. Higher than expected real estate excise tax payments (+4.6 million), cigarette taxes (+\$561,000), estate taxes (+\$503,000) and liquor taxes (+\$129,000) more than offset weaker than expected property taxes (-\$640,000) and a variety of "other" sources (-\$454,000).

Although mortgage rates have been drifting up in recent weeks, they remain very low historically. Low rates combined with easy credit and a healthy economy continue to produce stronger than expected real estate activity and real estate excise tax payments. Real estate activity in fact accelerated in the most recent month. Taxable activity (based on closings in August which reflect tax payments to the state in September) was 38.4 percent higher than a year-ago, the strongest growth since January. Last month activity was up 18.5 percent and two months ago it increased 18.4 percent. The majority of the increase was again due to an increase in the value per transaction (21.0 percent) however, growth of transactions was also strong, increasing 14.4 percent from the year-ago month. Last month the average value per transaction increased 17.8 percent while the number of transactions was up only 0.5 percent.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$76,000 above the estimate for the month.

The attached Table 1 provides a comparison of collections with the September 2005 forecast for the September 11 – October 10, 2005 collection period and cumulative since the September forecast. The variance for the month is virtually the same as the cumulative variance in Table 1 because the monthly estimates based on the September forecast have been adjusted to reflect actual collections through September 10, 2005. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

TABLE 1
Revenue Collection Report
October 10, 2005 Collections Compared to the September 2005 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
Sept. 11 - Oct. 10, 2005				
Department of Revenue-Total	\$884,525	\$913,292	\$28,767	3.3%
Revenue Act** (1)	791,172	815,231	24,059	3.0%
Non-Revenue Act(2)	93,353	98,061	4,708	5.0%
Liquor Sales/Liter	14,479	14,608	129	0.9%
Cigarette	4,263	4,824	561	13.2%
Property (State School Levy)	(11,745)	(12,386)	(640)	5.5%
Estate	1,477	1,980	503	NC
Real Estate Excise	77,737	82,346	4,609	5.9%
Timber (state share)	0	0	0	NA
Other	7,142	6,688	(454)	-6.4%
Department of Licensing (2)	451	527	76	16.7%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$884,976	\$913,819	\$28,842	3.3%
Cumulative Variance Since the September 2005 Forecast (Sept. 11, 2005 -Oct. 10, 2005)				
Department of Revenue-Total	\$884,525	913,292	28,767	3.3%
Revenue Act** (3)	791,172	815,231	24,059	3.0%
Non-Revenue Act(4)	93,353	98,061	4,708	5.0%
Liquor Sales/Liter	14,479	14,608	129	0.9%
Cigarette	4,263	4,824	561	13.2%
Property (State School Levy)	(11,745)	(12,386)	(640)	5.5%
Estate	1,477	1,981	504	NA
Real Estate Excise	77,737	82,346	4,609	5.9%
Timber (state share)	0	(0)	(0.0)	NA
Other	7,142	6,688	(454)	-6.4%
Department of Licensing (4)	451	912	461	102.0%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$884,976	\$914,204	\$29,227	3.3%

1 Collections September 11 - October 10, 2005. Collections primarily reflect August 2005 activity of monthly taxpayers.

2 September 1-30, 2005 collections.

3 Cumulative collections, estimates and variance since the September 2005 forecast; (September 11 - October 10, 2005) and revisions to history.

4 Cumulative collections, estimates and variance since the September 2005 forecast; (September 2005) and revisions to history.

5 Lottery transfers to the General Fund

* Based on the September 2005 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

TABLE 2
September 10, 2005 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections Preliminary</u>	<u>Revised</u>	<u>Difference Amount</u>	<u>Percent</u>
August 11 - September 10, 2005				
Department of Revenue-Total	\$886,766	\$886,766	\$0	0.0%
Revenue Act (1)	800,167	800,167	(0)	-0.0%
Non-Revenue Act(2)	86,600	86,600	(0)	-0.0%
Liquor Sales/Liter	9,442	9,442	0	0.0%
Cigarette	5,106	5,106	(0)	-0.0%
Property (State School Levy)-net	(17,718)	(17,718)	0	-0.0%
Property tax collections	6,721	6,721	0	0.0%
transfer to the Student Achievement Acct.	(24,439)	(24,439)	(0)	NA
Estate	2,192	2,192	(0)	-0.0%
Real Estate Excise	78,027	78,027	(0)	-0.0%
Timber (state share)	2,389	2,389	0	NA
Other	7,162	7,162	(0)	-0.0%
Department of Licensing (2)	1,329	1,243	(86)	-6.5%
Lottery (2)	0	0	0	NA
Total General Fund-State***	888,095	888,009	(\$86)	-0.0%

Cumulative Receipts: June 11 - September 10, 2005 & Revisions to History

Department of Revenue-Total	\$2,907,766	\$2,907,766	\$0	0.0%
Revenue Act (3)	2,476,768	2,476,768	(0)	-0.0%
Non-Revenue Act(4)	430,998	430,998	(0)	-0.0%
Liquor Sales/Liter	27,078	27,078	(0)	-0.0%
Cigarette	15,335	15,335	0	0.0%
Property (State School Levy)-net after transfer	250,005	250,005	0	0.0%
Estate	(148,550)	(148,550)	0	-0.0%
Real Estate Excise	238,917	238,928	11	0.0%
Timber (state share)	2,389	2,389	0	NA
Other	45,823	45,812	(11)	-0.0%
Department of Licensing (4)	9,808	9,722	(86)	-0.9%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$2,917,574	\$2,917,488	(\$86)	-0.0%

Preliminary. Reported in the September 10, 2005 collection report.

1 Collections August 11 - Sept. 10, 2005. Collections primarily reflect July 2005 business activity of monthly taxpayers.

2 August 1-31, 2005 collections.

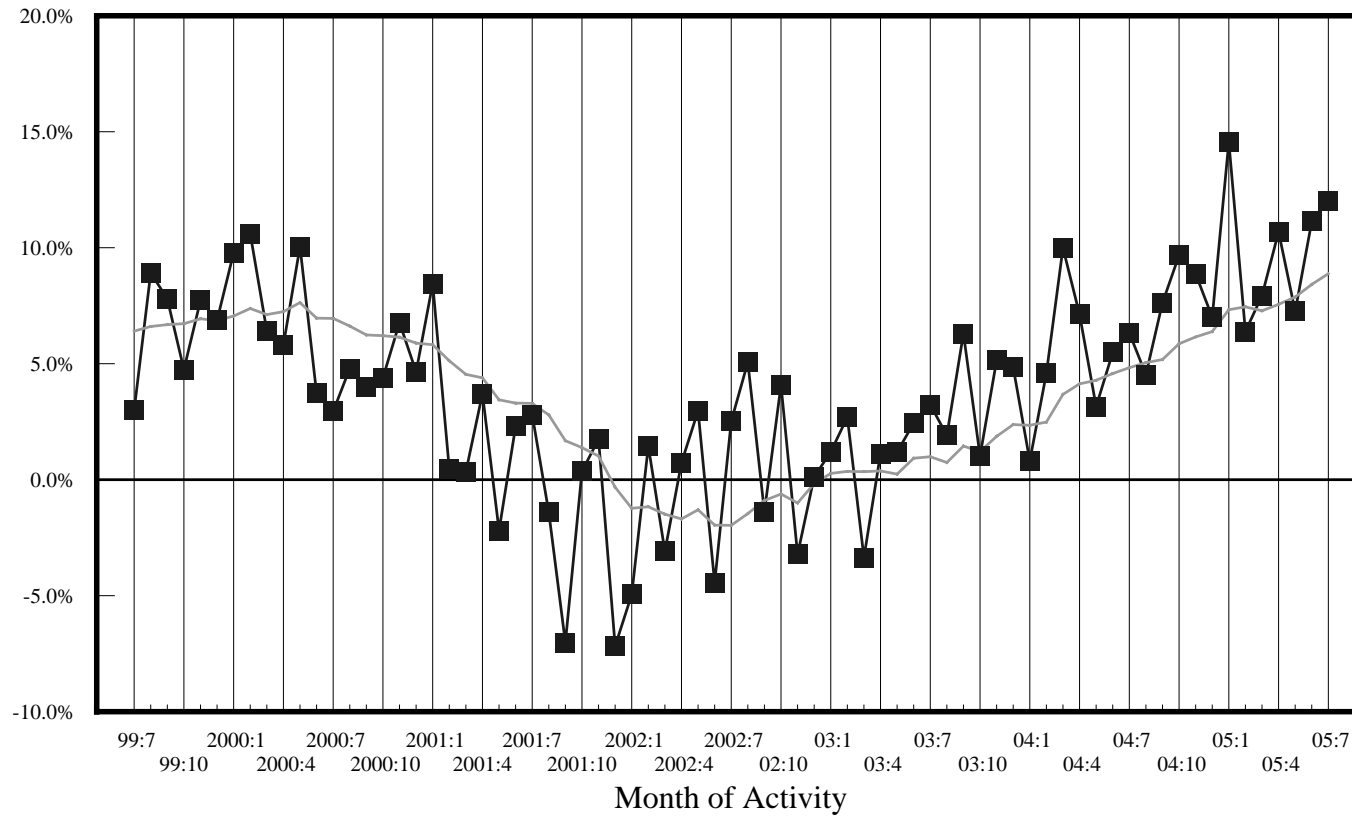
3 Cumulative receipts since the June 2005 forecast: June 11-Sept. 10,2005 & revisions to history.

4 Cumulative receipts since the June 2005 forecast (June-August 2005) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Revenue Act Net Collections*

Year-over-Year Percent Change



■ %CH from year-ago month

— %change: 12 month moving average

* Adjusted for new legislation and special factors